Tax Aviation Stay Grounded
Why wait?

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International aviation hardly exists today
Brian Pearce, IATA Chief Economist 15 Sept 2020

International air travel still catastrophically low
Outside of a very few, most international markets remain down 95%

Source: IATA Economics using data from IATA Statistics
Full recovery by 2024/5? Depends on vaccine
Discard past assumptions about airline growth, airport expansion etc

Long-term revenue loss requires a lot of restructuring
Relative to pre-crisis plans, revenues far lower for longer than expected

Source: IATA/Tourism Economics ‘Air Passenger Forecasts’ July 2020
Count on more bailouts? Or bankruptcy rescues?

Airlines being kept on life support
$160bn aid from government and another $20bn from suppliers

Government aid made available to airlines due to COVID-19, by type (USD bn)

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct aid (subsidies, loans, equity, cash injection)</td>
<td>99.7</td>
</tr>
<tr>
<td>Wage subsidies</td>
<td>40.1</td>
</tr>
<tr>
<td>Corporate taxation</td>
<td>12.0</td>
</tr>
<tr>
<td>Industry taxation</td>
<td>9.5</td>
</tr>
<tr>
<td>Fuel charges</td>
<td>0.7</td>
</tr>
<tr>
<td>Total</td>
<td>161.9</td>
</tr>
</tbody>
</table>

Source: IATA Economics using public information and data from SRS Analyser, DDS, FlightRadar 24, TTBS, ACIC, Platts, Airline

Median airline will not last by the time demand recovers
Dramatic restructuring of costs required to get cash flows positive

2020 Q2 cash + cash equivalents / 2020 Q2 cash burn

Source: IATA Economics using data from the Airline Analyst
What’s the future of Aviation?
Now that degrowth has finally arrived!

- Carriers will disappear/merge/restructure
- The next 6 months (winter season) will be brutal
- Recovery/growth will be painful & slow
- Only domestic China aviation is near recovery -20%
- Airlines must dramatically restructure/downsize
- Bailouts wont last forever
- Fleet growth forecasts to 2030 sharply down
- Revenue way behind capacity = breakeven % is higher
- Which means fares only going one way – UP!
- Airports are all on life support. Forget expansion
- EU’s air traffic system in financial meltdown
Every airline/country for themselves!

Bailouts per seat.
LH $372. AF/KL $334
AZ $394. SQ $574!
OAG Sept 2020

<table>
<thead>
<tr>
<th>Airline</th>
<th>State support (USD m)</th>
<th>Seats</th>
<th>State support per seat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lufthansa Group</td>
<td>$12,057</td>
<td>23,631,296</td>
<td>$372</td>
</tr>
<tr>
<td>Air France-KLM</td>
<td>$11,650</td>
<td>34,841,151</td>
<td>$334</td>
</tr>
<tr>
<td>Singapore Airlines</td>
<td>$8,700</td>
<td>6,613,702</td>
<td>$1,316</td>
</tr>
<tr>
<td>American Airlines</td>
<td>$6,800</td>
<td>111,687,961</td>
<td>$52</td>
</tr>
<tr>
<td>Delta Air Lines</td>
<td>$5,400</td>
<td>91,514,986</td>
<td>$59</td>
</tr>
<tr>
<td>United Airlines</td>
<td>$6,000</td>
<td>70,661,988</td>
<td>$81</td>
</tr>
<tr>
<td>Cathay Pacific</td>
<td>$3,900</td>
<td>8,791,720</td>
<td>$574</td>
</tr>
<tr>
<td>Alitalia (”tentative”)</td>
<td>$3,540</td>
<td>8,990,606</td>
<td>$394</td>
</tr>
<tr>
<td>Southwest Airlines</td>
<td>$3,300</td>
<td>107,721,372</td>
<td>$31</td>
</tr>
<tr>
<td>ANA Holdings</td>
<td>$3,250</td>
<td>40,478,335</td>
<td>$80</td>
</tr>
</tbody>
</table>

Real issue now is future airline business models/pricing

- Start adding in external cost recovery (taxes) now
- And progressively increase. Boil the frog slowly
- Reject the idea that taxation has to wait until BAU returns
- IATA now realises that handouts are coming to an end
- Downsizing means “smaller is more beautiful”
- Smaller, leaner = less flight options and higher fares
- So there’s room now for environmental taxation/pricing
- Previously frenzied growth/competition was the obstacle
CORSIA and ETS

- CORSIA will have no effect for years
- International/domestic split now 10/90%. Was 60/40%
- States are the Regulators now. Not ICAO
- Exclude CORSIA from intra EU = ETS “clean cut” option
- & extra EU - longhaul ticket taxes instead – UK APD level.
- Green Deal ETS; free allowances = windfall profits
- 2012 “stop the clock” eliminated possible carbon leakage
- Abolishing free allowances is righting a wrong.
- Reform = an ETS carbon floor price = aviation fuel taxation
- Reform = fix the Brexit hole; ETS coverage reduces 31+%
- Impose ETS on flights to the UK from 2021 if no linking
- Reform = tighten aviation LRF for 55% 2030 reduction
Start taxing aviation now!

- EU decided 20 years ago to tax aviation fuel
- Spain/Ireland nixed that at 2002 Ecofin
- Commission 1997; tax fuel bilaterally. No action!
- Green Deal ETD review. Superfluous. Just more delay
  - Sucks ambition from 2019 Finance Minister’s call
- EU Council; no to Brexit fuel tax exemption. Boris wants!
  - push Commission/Germany, EU states, Whitehall
- UK considering carbon tax on aviation!!
  - Support the UK Consultation on aviation carbon tax
- UK warned; ETS or carbon tax on EU flights Jan 2021
  - Where are the NGOs on all this?
International Practice

• 43+ countries tax domestic aviation fuel. Not EU
  US, Japan, Brazil, India, Saudi, Ethiopia, Kenya etc

• Many, many countries have aviation ticket taxes

Why exempt aviation if road fuel is taxed?

FFL – frequent flyer levy

➢ Tax each flight/passenger first
➢ Levy can come later
➢ Examine legal issues/feasibility
Homework

Taxing Aviation Fuel in Europe; Back to the Future. 2020

Taxes in the field of aviation and their impact. 2019
https://op.europa.eu/en/publication-detail/-/publication/0b1c6cdd-88d3-11e9-9369-01aa75ed71a1

A study on Aviation Ticket Taxes. 2018
https://www.ce.nl/en/publications/2208/a-study-on-aviation-ticket-taxes

EC Consultation on ETS CORSIA IIA 2020

UK Consultation on aviation carbon pricing. Till 29 Sept